Section # 6

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To Do

- Review: Healthcare systems around the world
- Beyond GDP...

Healthcare around the world

Recall there is always a trade-off when choosing what type of healthcare system to have:

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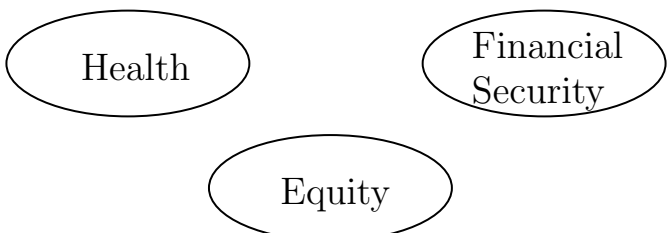

Healthcare around the world

There are two types of systems:

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Healthcare around the world

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- Beveridge System:
- Bismark System:
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Beveridge System

- Universal via public insurance
- Public provision, i.e. govt. doctors and hospitals
- Low monetary payments
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In order to keep costs low (deriving from moral hazard):

- Low # of doctors $\Leftrightarrow$ longer queues
- Low adoption of (costly) new technology
- Price controls

Bismark System

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Beyond GDP

Definition: Gross Domestic Product is the monetary or market value of all the finished goods and services produced within a country's borders.

- Most economists, policymakers, and most people in general take this as what determines well-being.
- Recently there has been more of a push to think more broadly about **Welfare** rather than **GDP**.

Welfare vs. GDP

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Welfare vs. GDP

- What do you think **welfare** is? Economist think that welfare is about utility $u(\cdot)$, GDP is about output.
- In *Beyond GDP*, Chad Jones and Pete Klenow try to get at welfare and make a cross-country comparison.
- What are some things GDP might be missing?

Welfare vs. GDP more in detail

GDP in math:

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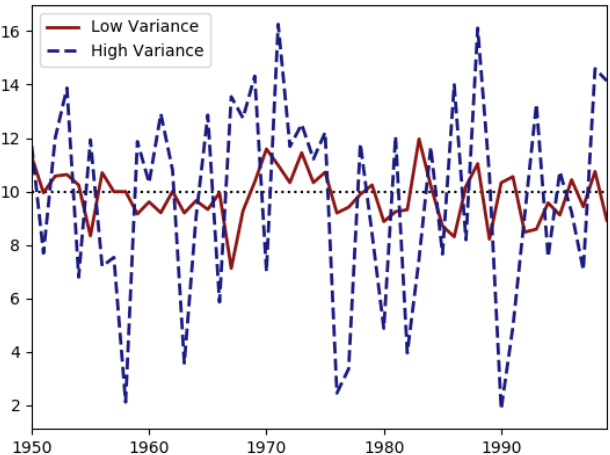
Welfare in math:

$$\text{Welfare} = U = \sum_{a=1}^{100} \beta^{a} S(a) u\left(C_a, l_a\right)$$

GDP and its Variance

Which economy would you prefer living in?



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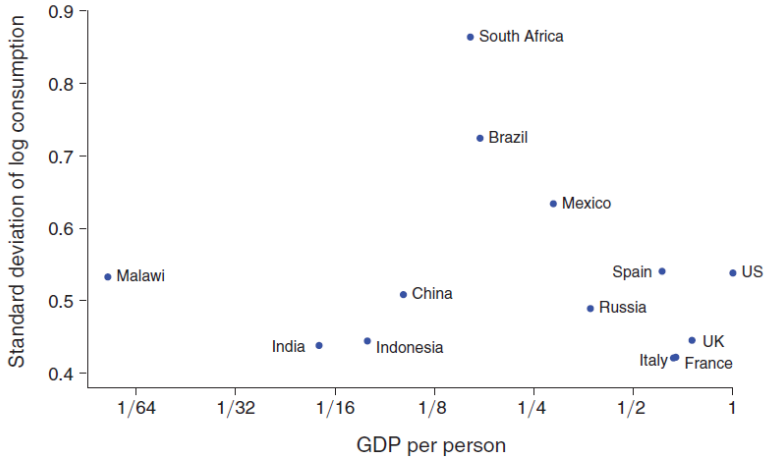

Figure: Source: *Beyond GDP* (Jones and Klenow, 2016)

GDP and Leisure Time

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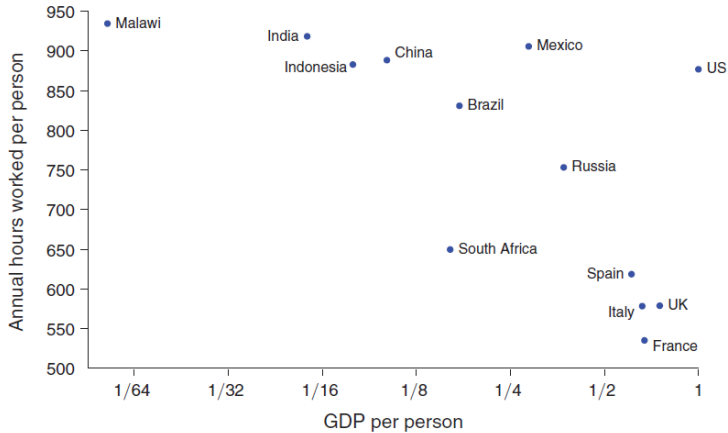
GDP is increasing in hours worked: force people to work more!
But utility is decreasing in hours worked!



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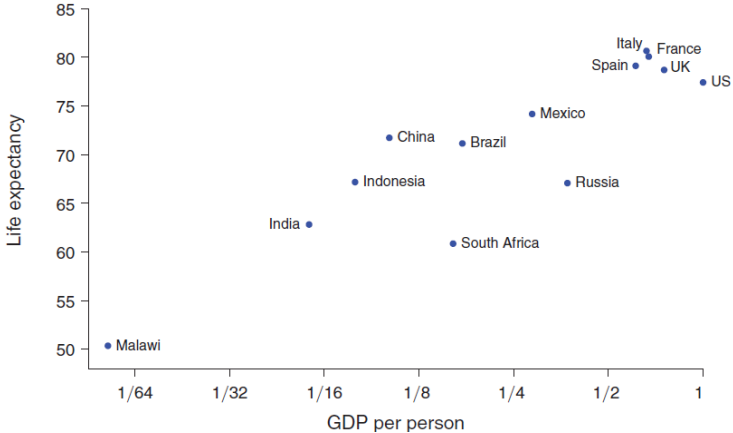
GDP and Life Expectancy

Old people consume but don't produce, decreasing GDP/person.
But the longer you live the more utility you get over a lifetime!



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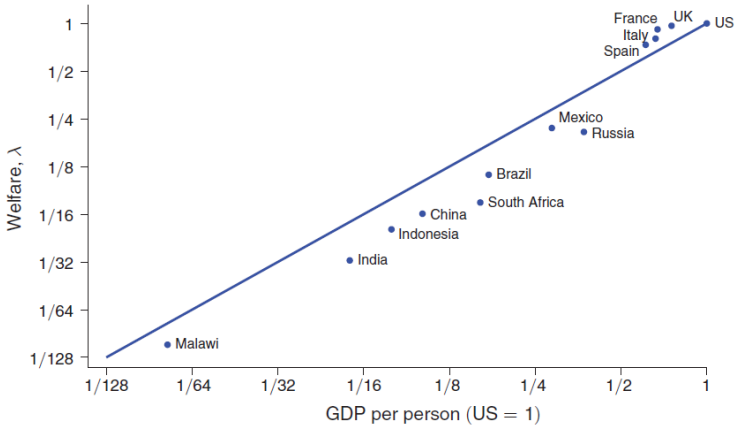
Welfare results

Welfare and GDP/person are very related but not 100%.



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Welfare in an Uncertain World

- There is a tradition, in both philosophy and economics, thinking of welfare from *behind the* ***veil of ignorance***.
- It asks a decision-maker to make a choice about a social issue and assumes that they have enough information to know the consequences of their possible decisions for everyone but without knowing which person they are.
- Then you will do something like this:

$$\max_{\{C_{i,a},l_{i,a}\}_{a=0}^{100}} \mathbb{E}_0 \lambda_i \left[\sum_{a=1}^{100} \beta_i^a S_i(a) u_i \left(C_{i,a}, l_{i,a} \right) \right]$$